

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 ABF-01 PA-02 PRS-01 (ISO) W
-----088995 270137Z /73

R 261931Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0107
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 25)

1. FOREIGN EXCHANGE MARKETS:

THE DOLLAR HAS FALLEN TO NEW LOWS ON GERMAN FOREIGN
EXCHANGE MARKETS THIS WEEK. FINANCE MINISTER APEL,
IN AN ARTICLE IN SUNDAY'S "DIE WELT", WAS QUOTED AS
SAYING THAT THE DOLLAR/DM RATE WILL TURN AROUND AGAIN
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SINCE THE DOLLAR IS NOW CERTAINLY UNDERVALUED.
HELMUT GEIGER, PRESIDENT OF THE GERMAN SAVINGS BANK
ASSOCIATION, ALSO DESCRIBED THE DOLLAR AS UNDERVALUED
SINCE THE RECENT DECLINE OF THE DOLLAR HAS EXCEEDED
INFLATION RATE DIFFERENTIALS IN THE RESPECTIVE COUNTRIES
BUT ADDED THAT GERMAN EXPORTS TO IMPORTANT MARKETS ARE
LIKELY TO SUFFER. AGAIN IN MONDAY'S "DIE WELT" SEVERAL

ARTICLES ON THE SUBJECT APPEARED, ONE OF WHICH SPECULATED THAT SECRETARY BLUMENTHAL FAVORED A FURTHER APPRECIATION OF THE DEUTSCHEMARK AND YEN. THE ARTICLE TOOK EXCEPTION TO SECRETARY BLUMENTHAL'S REPORTED POSITION THAT THERE IS NO PRESENT NEED FOR CENTRAL BANK INTERVENTION. THE ARTICLE CONCLUDED THAT THE SYSTEM WHEREBY CENTRAL BANKS MODERATE DAILY MOVEMENTS ON EXCHANGE MARKETS IS NO LONGER OPERATING AND THAT THE U.S. WAS RESPONSIBLE FOR TORPEDOING THE SYSTEM. OTHER REPORTING FOCUSED ON THE COMPETITIVE ADVANTAGE GAINED BY U.S. EXPORTERS FROM THE DOLLAR'S FALL AND INFERRED THAT THIS WAS THE REAL MOTIVE BEHIND U.S. URGINGS FOR "STRONG" CURRENCY APPRECIATION. FOR THE PERIOD JULY 19-26, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	FORWARD DOLLARS					
	SPOT DOLLARS		(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH	
	-----	-----	-----	-----	-----	-----
JULY 19	2.2650	2.2628	2.2665	-1.9	-2.2	
JULY 20	2.2675	2.2593	2.2615	-1.5	-2.1	
JULY 21	2.2600	2.2592	2.2645	-1.9	-2.1	
JULY 22	2.2625	2.2612	2.2580	-2.1	-2.0	
JULY 25	2.2460	2.2505	2.2470	-1.6	-1.9	
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JULY 26 2.2440 2.2490 N.A. N.A. N.A.

2. BUNDESBANK FOREIGN POSITION:

IN THE SECOND WEEK IN JULY, THE BUNDESBANK'S FOREIGN POSITION WAS UNCHANGED AT DM 85.3 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED SUBSTANTIALLY BY DM 297 BILLION, DUE LARGELY TO CURRENCY INTERVENTIONS BY THE BUNDESBANK. CREDITS TO FOREIGN MONETARY AUTHORITIES ALSO INCREASED BY DM 34 MILLION. OFFSETTING THIS WAS AN INCREASE IN FOREIGN LIABILITIES OF DM 310 MILLION LARGELY THROUGH INCREASED DEPOSITS WITH BUNDESBANK OF FOREIGNERS.

3. BANK LIQUIDITY:

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STR-04 CEA-01 ABF-01 PA-02 PRS-01 /107 W
-----088553 270102Z /73

R 261931Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0108
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
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DURING THE SAME PERIOD, BANKS SUBSTANTIALLY INCREASED THEIR INDEBTEDNESS TO THE BUNDESBANK. IN TOTAL, BANKS BORROWED DM 7.0 BILLION FROM THE BUNDESBANK THROUGH INCREASED LOMBARD BORROWINGS (DM 4.6 BILLION), SPECIAL REDISCOUNT BORROWINGS (DM 2.0 BILLION) AND NORMAL REDISCOUNT BORROWINGS (DM 0.4 BILLION).

THE MAJOR FACTOR REDUCING LIQUIDITY WAS A RE-STOCKING OF BANK MINIMUM RESERVES HELD AT THE BUNDESBANK. THESE INCREASED BY DM 6.7 BILLION DURING THE PERIOD TO TOTAL DM 50.6 BILLION. FOR THE PERIOD JULY 1-17 BANK MINIMUM RESERVES ON A DAILY AVERAGE BASIS WERE DM 45.5 BILLION. ANOTHER FACTOR REDUCING

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LIQUIDITY WAS AN INCREASE IN OFFICIAL ASSETS HELD AT THE BUNDESBANK OF DM 1.1 BILLION, RESULTING PRIMARILY FROM RECEIPTS FROM THE MINOR JULY TAX DATE. FACTORS INCREASING LIQUIDITY WERE A DM 0.5 BILLION REDUCTION

IN CURRENCY IN CIRCULATION, BORROWING OF PUBLIC AUTHORITIES OF DM 0.1 BILLION, AND A REDUCTION OF OTHER, UNSPECIFIED, LIABILITIES OF DM 0.2 BILLION.

4. BOND MARKET:

FOLLOWING A RELATIVELY LENGTHY PERIOD OF CALM CONDITIONS, ACTIVITY ON THE GERMAN BOND MARKET PICKED UP LAST WEEK. PRICE INCREASES OCCURRED ACROSS A BROAD FRONT, RESULTING, ACCORDING TO MARKET OBSERVERS, FROM INCREASED DEMAND FOR FIXED RATE SECURITIES.

REMAINING MATURITY

(YEARS)	1	3	5	6	8	10
JULY 24	4.50	5.30	5.70	5.90	6.25	6.45
JULY 17	4.50	5.40	5.95	6.10	6.45	6.65

5. MONEY MARKET:

MONEY MARKET CONDITIONS CHANGED VERY LITTLE DURING THE PERIOD JULY 19-25. THREE-MONTH RATES EASED SLIGHTLY. CALL MONEY REMAINS AT ABOUT THE 4.0 PERCENT LOMBARD RATE. OVER THE PERIOD, FRANKFURT INTERBANK RATES WERE AS FOLLOWS:

CALL MONEY	ONE-MONTH	THREE-MONTH
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JULY 19	4.0 - 4.1	4.10	4.10
JULY 20	4.0 - 4.1	4.10	4.10
JULY 21	4.0 - 4.1	4.10	4.10
JULY 22	4.0 - 4.1	4.10	4.10
JULY 25	4.0 - 4.1	4.10	4.10

6. DM 14 BILLION FEDERAL CASH DEFICIT RECORDED IN JANUARY - JUNE 1977:

ACCORDING TO PRELIMINARY FIGURES RELEASED BY THE FINANCE MINISTRY, DURING THE FIRST HALF OF 1977 THE FEDERAL GOVERNMENT INCURRED A DM 14 BILLION CASH DEFICIT (FINANCE STATISTICS DEFINITION), I.E., DM 4 BILLION LESS THAN THE CASH DEFICIT IN JANUARY - JUNE 1976. THIS IMPROVEMENT REFLECTS RAPIDLY RISING TAX RECEIPTS

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(UP 11 PERCENT OVER THE FIRST HALF OF LAST YEAR) AND
MODEST GROWTH OF EXPENDITURES (UP 2.8 PERCENT). THE
SLOW YEAR-OVER-YEAR GROWTH OF EXPENDITURES, THE
MINISTRY EXPLAINED, IS ATTRIBUTABLE TO THE FACT THAT
THIS YEAR THERE WAS NO NEED FOR FEDERAL GOVERNMENT
SUPPORT OF THE FEDERAL LABOR AGENCY, WHEREAS DURING
THE FIRST HALF OF LAST YEAR SUBSIDIZATION IN THE AMOUNT
OF DM 3 BILLION WAS REQUIRED. AFTER ADJUSTMENTS FOR
THIS SPECIAL FACTOR, EXPENDITURES SO FAR THIS YEAR,
THE MINISTRY CALCULATED, HAVE EXCEEDED LAST YEAR'S LEVEL
BY 6.9 PERCENT, I.E., SOMEWHAT MORE THAN THE 5.9 PERCENT
RISE OVER ACTUAL 1976 OUTLAYS IMPLICIT IN THE APPROVED
1977 BUDGET.

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7. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

ACCORDING TO PRELIMINARY DATA RELEASED BY THE FEDERAL
AUTOMOBILE REGISTRATION AGENCY IN FLENSBURG, THE NUMBER
OF NEWLY-LICENSED PASSENGER CARS (NON-SEASONALLY
ADJUSTED) CAME TO 237,805 IN JUNE; THE RATE OF INCREASE
OVER COMPARABLE 1976 LEVELS WAS 2.2 PERCENT IN APRIL,
11.1 PERCENT IN MAY AND 13.0 PERCENT IN JUNE.
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